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SUBJECT: Turkey FDI: Investment Climate Efforts Stall

Sensitive But Unclassified. Please handle accordingly.

1. (SBU) Summary. Government and private sector sources agree there was little significant improvement in Turkey's investment climate in 2004. Foreigners' real estate purchases amounted for a large portion of an increase in FDI recorded in Central Bank figures. Creation of a semi-governmental investment promotion agency has been put on hold due to a disagreement between the GOT and the private sector. End Summary.

Modest Rise in FDI Inflows

2. (SBU) Econoff and Econ Specialist discussed investment climate issues with Osman Emed, Deputy Director General for Foreign Investment at the Turkish Treasury on October 19, and with Naci Akin, Business Development Director of the Turkish Union of Chambers and Commodity Exchanges (TOBB) on October 1. Emed said that although investment statistics may not fully capture FDI inflows, he had no information to amplify the Central Bank's data showing some USD 1.8 billion in inflows of FDI to Turkey this year. Emed said this figure was considerably higher than last year's USD 844 million, but a large portion of this amount, as much as USD 1.0 billion according to the Central Bank data, appears to be going into purchases of Turkish real estate, rather than employment-generating investments. He said there has been a mini-boom in foreign company establishment, but so far, little sign of long-term FDI inflows. In particular, a large number of Chinese and Middle Eastern companies seem to be putting feelers out to the Turkish market.

Investment Climate Improvement Effort

3. (SBU) Emed confirmed that the GOT's efforts to systematically introduce reforms to the investment climate have stalled. The official reform committees (known by their Turkish acronym YOIKK) have met once in the last year, and a lack of top-level focus has encouraged inertia in the various Turkish bureaucracies, which would be affected by reform. The GOT has not even begun work on a progress report in investment climate reform promised at the March 2004 Investor Advisory Council meeting, chaired by the Prime Minister. Emed attributed the drift on investment climate primarily to the GOT's near-total focus on obtaining a date for accession talks from the EU in December, and to the conviction -- which he does not share -- that the prospect of accession talks will by itself lead to an FDI boom in Turkey.

4. (SBU) Emed noted the efforts to add a new subject to the YOIKK process -- reform of company liquidation procedures, which currently form a barrier to exit from the market. Emed said the sectoral permit problem was also on the agenda of the last YOIKK meeting, but remained unresolved. The committee decided to ease the permit application process by authorizing governors' offices in each province to receive the applications and coordinate with the related ministries. However, Emed thought this was not a viable solution, since it added another step to the permit process.

Investment Promotion Agency Shelved

5. (SBU) Emed told us that plans to establish an investment promotion agency for Turkey had been put on hold because the GOT could not come to terms with the private sector on the composition of the board, as well as because Turkey's various business chambers could not agree on the

financing sources for the agency. Rather than creating the semi-autonomous agency the private sector preferred, TOBB's Naci Akin told us that the GOT had insisted on a public sector entity, financed by the state budget and subject to what is perceived to be cumbersome public procurement legislation. Emed suggested that forming a promotion agency is secondary in importance to the overall investment climate improvement effort.

16. (SBU) Separately, the chairman of the Foreign Investors Association (YASED), Saban Erdikler, said the shelving of the long-proposed agency was "a real disappointment." He said that the government had agreed to fund more investment promotion activities through the Treasury's Foreign Investment Directorate, but that this was far from a substitute for the knowledge and dynamism a public-private organization could bring, as Ireland's or the Czech Republic's experience with such organizations demonstrated. He said the government had agreed to review the Treasury's investment promotion performance in one year, after which the proposal for a new agency could be reopened.

Comment

17. (SBU) The GOT's investment climate improvement efforts had a limited positive effect on the FDI inflow to Turkey in 2004, and its expectations for 2005 heavily rely on obtaining a date for accession talks with the EU in December. Our message has been that the Turkey should not take for granted that a favorable decision from the EU followed by an FDI boom, but should continue to demonstrate its commitment to reform in the investment climate and the judicial system, in order to attract long-term, employment-generating investments.

Edelman